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O 161122Z APR 08
FM AMEMBASSY QUITO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8728
INFO RUEHBO/AMEMBASSY BOGOTA PRIORITY 7504
RUEHCV/AMEMBASSY CARACAS PRIORITY 2982
RUEHLP/AMEMBASSY LA PAZ APR 1009
RUEHPE/AMEMBASSY LIMA PRIORITY 2550
RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 3492
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS QUITO 000345

SIPDIS

SENSITIVE
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TREASURY FOR MEWENS

E.O. 12958: N/A
TAGS: [ECON](#) [EAID](#) [ETRD](#) [EPET](#) [EINV](#) [EAGR](#) [EC](#)
SUBJECT: ECUADOR ECON WEEKLY: GOE-USAID ECONOMIC STRATEGY; PETROBRAS
FIGHTS CADUCITY; 1ST QTR PERFORMANCE; FLOOD AID

REF A: QUITO 164
REF B: QUITO 225

¶1. (U) The following is a weekly economic update for Ecuador that reports notable developments that are not reported by individual cables.

Correa Approves USAID economic growth strategy

¶2. (SBU) President Correa has agreed to support a sectoral investment promotion strategy developed by USAID contractors. AID worked with staff of the Ministry of Production to produce the strategy, and presented it formally to Correa and to Coordinating Minister for Production, Susana Cabeza de Vaca, on April 2. Correa said he would support seven of ten sectors identified as most promising in terms of employment generation, foreign exchange, and value added (including flowers, tourism, wood, and processed fish). The strategy's goal is to help the GOE develop an agenda for promoting national and foreign investment in Ecuador. Correa reportedly said "this project will set my administration's policy for industry development." Cabeza de Vaca and her staff held a two-hour follow up meeting with AID this week to discuss moving forward on details and implementation.

Petrobras Caducity Threat Update

¶3. (U) On March 31, Petroecuador notified Petrobras that it would initiate a previously-threatened caducity process (reftel) to cancel the contract for its main oilfield (Block 18) if the company did not respond to charges of contract violations within ten days. Petrobras says it provided all requested documents on April 10, despite press reports to the contrary.

¶4. (SBU) Petrobras also denies press reports that it has initiated arbitration against the GOE. The company wants to continue negotiations to renew its production-sharing contract, which produces around 35,000 barrels per day. (Over the weekend, Correa suspended contract negotiations; more details septel.)

2008 First Quarter Economic Performance

¶5. (U) The Chamber of Industries of Pichincha reports that unemployment increased significantly from January to February 2008, from 6.67% to 7.37% (official data exist only for December 2007, and was 6.1%). Inflation is also worsening, with an annualized rate of 6.5% (compared to the GOE's 2008 goal of 3.7%). The Central Bank

continued to lower the interest rate ceilings for all lending sectors. Some analysts fear this will lead to a credit contraction, but others claim lower rates will stimulate the economy.

16. (U) Overall exports rose by 6.7% in February 2008 compared to December 2007. Petroleum exports rose by 18.9% for the same period, which reflects a slight recovery in output in both public and private oil fields. Tuna and mining exports registered gains of 53.4% and 29% respectively. Exports to the U.S. such as cacao and shrimp, however, declined for the same period.

GOE Provides \$14.3 million in Agriculture Relief

18. (U) On April 3, Minister of Agriculture Walter Poveda announced GOE plans to import and distribute free of charge \$14.3 million in agricultural products such as fertilizer and seeds to small farmers affected by continuing flooding and heavy rains. Comment: This is one of several modest steps to provide relief for the economic and agricultural losses due to the flooding. (The GOE has speculated about providing debt relief to small farmers (ref b), reportedly in the amount of \$150 million, but has not yet implemented a program.) The fields are still under water, and the full extent of the damage is not yet known. With the current focus on emergency relief, it does not yet appear that the GOE has a comprehensive plan to deal with recovery. End comment.

JEWELL